

MONACA SCHOOL DISTRICT
BEAVER COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

JANUARY 2009

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Michael Halama, Board President
Monaca School District
1500 Allen Avenue
Monaca, Pennsylvania 15061

Dear Governor Rendell and Mr. Halama:

We conducted a performance audit of the Monaca School District (MSD) to determine its compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. Our audit covered the period June 16, 2006 through June 23, 2008, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2006, and June 30, 2005, as they were the most recent reimbursements subject to audit. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the MSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. However, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit observation and recommendations have been discussed with MSD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve MSD's operations and facilitate compliance with legal and administrative requirements. We appreciate the MSD's cooperation during the conduct of the audit and their willingness to implement our recommendations.

Sincerely,

/s/

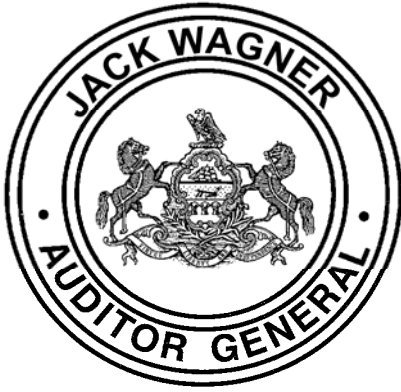
JACK WAGNER
Auditor General

January 26, 2009

cc: **MONACA SCHOOL DISTRICT** Board Members

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Monaca School District (MSD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the MSD in response to our prior audit recommendations.

Our audit scope covered the period June 16, 2006 through June 23, 2008, except as otherwise indicated in the audit scope, objectives and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2005-06 and 2004-05 as they were the most recent reimbursements subject to audit. The audit evidence necessary to determine compliance specific to reimbursements is not available for audit until 16 months, or more, after the close of a school year.

District Background

The MSD encompasses approximately 2 square miles. According to 2000 federal census data, it serves a resident population of 6,286. According to District officials, in school year 2005-06 the MSD provided basic educational services to 774 pupils through the employment of 57 teachers, 55 full-time and part-time support personnel, and 3 administrators. Lastly, the MSD received more than \$4.7 million in state funding in school year 2005-06.

Audit Conclusion and Results

Our audit found that the MSD complied, in all significant respects, with applicable state laws, regulations, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one matter unrelated to compliance that is reported as an observation.

Observation: Unmonitored Vendor System Access and Logical Control

Weaknesses. We determined that a risk exists that unauthorized changes to the MSD's data could occur and not be detected because the MSD was unable to provide supporting evidence that they are adequately monitoring all vendor activity in their system. MSD management agreed with the observation (see page 6).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the MSD from an audit we conducted of the 2003-04 and 2002-03 school years, we found the MSD had taken appropriate corrective action in implementing our recommendations pertaining to the certification irregularity (see page 10).



Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period June 16, 2006 through June 23, 2008, except for certification which was reviewed for the period May 31, 2006 to May 31, 2008. Regarding state subsidy reimbursements, our audit covered school years 2005-06 and 2004-05 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Department of Education (DE), is not available for audit until 16 months, or more, after the close of a school year.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with DE reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as, laws, regulations, and defined business practices. Our audit focused on assessing the MSD compliance with applicable state laws, regulations, contracts, grant requirements and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a law, regulation, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

- ✓ In areas where the District receives state subsidy reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ Did the District follow applicable laws and procedures in areas dealing with pupil membership and ensure that adequate provisions were taken to protect the data?
- ✓ Is the District pupil transportation department, including any contracted vendors, in compliance with applicable state laws and procedures?
- ✓ Does the District ensure that Board members appropriately comply with the Public Official and Employee Ethics Act?
- ✓ Are there any declining fund balances which may impose risk to the fiscal viability of the District?
- ✓ Did the District pursue a contract buyout with an administrator, and if so, what was the total cost of the buy-out, reasons for the termination/settlement, and do the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, regulations, contracts, grant agreements and administrative procedures.

MSD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, regulations, contracts, grant agreements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil membership, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, state ethics compliance, and financial stability.
- Items such as meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

Additionally, we interviewed selected administrators and support personnel associated with MSD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on January 11, 2007, we performed audit procedures targeting the previously reported matters.

Findings and Observations

Observation

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections. It is in contrast to “physical access” which is the ability to actually touch the computer components.

“Logical access control” refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

Unmonitored Vendor System Access and Logical Control Weaknesses

The Monaca School District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District’s network servers.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the District’s data could occur and not be detected because the District was unable to provide supporting evidence that they are adequately monitoring all vendor activity in their system. However, since the District has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the District’s membership information and result in the District not receiving the funds to which it was entitled from the state.

During our review, we found the District had the following weaknesses over vendor access to the District’s system:

1. The District does not have evidence to support they are generating or reviewing monitoring reports of user remote access and activity on the system (including vendor and District employees). There is no evidence to support that the District is performing any procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system.
2. The vendor uses a group userID rather than requiring that each employee has a unique user ID and password.
3. The vendor has unlimited access (24 hours a day/7 days a week) into the District’s system.

4. The District's Acceptable Use Policy does not include provisions for privacy (e.g., monitoring of electronic mail, access to files); and authentication (password security and syntax requirements).
5. The District does not maintain proper documentation to evidence that terminated employees were removed from the system in a timely manner.
6. The District does not require written authorization before adding, deleting, or changing an userID.
7. The District does not require written authorization prior to the updating/upgrading of key applications.
8. The District does not store back-up tapes in a secure, off-site location.
9. The District does not have current information technology (IT) policies and procedures for controlling the activities of vendors/consultants, nor does it require the vendor to sign the District's Acceptable Use Policy.
10. The District has certain weaknesses in logical access controls. We noted that the District's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days; to use passwords that are a minimum length of eight characters and include alpha, numeric and special characters; to maintain a password history (i.e., approximately ten passwords); and to lock out users after three unsuccessful attempts.
11. The District has certain weaknesses in environmental controls in the room that contains the server that houses all of the District's data. We noted that the specific location does not have fire detection/ fire suppression equipment or a Temperature Controlled Room.

Recommendations

The *Monaca School District* should:

1. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on their system. Monitoring reports should include the date,

time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.

2. Require the vendor to assign unique userIDs and passwords to vendor employees authorized to access the District system. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
3. Allow access to their system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
4. Amend its Acceptable Use Policy to include provisions for privacy (e.g., monitoring of electronic mail, access to files); and authentication (password security and syntax requirements).
5. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
6. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
7. Upgrade or update their system only after receipt of written authorization from appropriate District officials.
8. Store back-up tapes in a secure, off-site location.
9. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the District should require the vendor to sign the District's Acceptable Use Policy.

10. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords); and lock out users after three unsuccessful attempts.
11. Consider implementing additional environmental controls around the network server sufficient to satisfy the requirements of the manufacturer of the server and to ensure warranty coverage. Specifically, the District should install fire detectors and fire extinguishers in the computer room, and keep the servers in a temperature controlled room.

Management Response

Monaca School District agreed with the observation and stated:

The district will work with its vendor to correct those items that have the potential to compromise the integrity of the district's data.

Status of Prior Audit Findings and Observations

Our prior audit of the Monaca School District (MSD) for the school years 2003-04 and 2002-03, resulted in one finding. The finding pertained to a certification irregularity. As part of our current audit, we determined the status of corrective action taken by the MSD to implement our prior recommendations. As shown below, we found that MSD did implement recommendations related to the certification irregularity.

<i>School Years 2003-04 and 2002-03 Auditor General Performance Audit Report</i>		
<i>Prior Recommendations</i>	Implementation Status	
<p><u><i>Finding – Certification Irregularity</i></u></p> <ol style="list-style-type: none"> The board should put procedures in place to ensure that professional employees holding provisional certificates obtain permanent certification before their provisional certificates expire. The Department of Education (DE) should adjust the District’s allocations to assess the appropriate subsidy forfeiture. 	<p>Background:</p> <p>Our audit of professional employees’ certification and assignments for the period December 1, 2004 through May 30, 2006, found one individual assigned to a teaching position whose provisional certification might have expired.</p> <p>Information pertaining to the assignment in question was submitted to the Bureau of School Leadership and Teacher Quality (BSLTQ), DE, for its review. Subsequent to the completion of fieldwork for our audit, BSLTQ confirmed that the provisional certificate had expired; the District was therefore subject to a subsidy forfeiture of \$1,810 for the 2005-06 school year.</p>	<p>Current Status:</p> <p>The current audit revealed that all professional personnel currently hold appropriate certification for their assigned positions. The teacher cited in the prior audit obtained permanent certification as of June of 2006.</p> <p>DE recovered the subsidy forfeiture of \$1,810 as a deduction from the District’s 2005-06 basic education funding.</p> <p>Based on the results of our current audit, we conclude that the District did take appropriate corrective action to address this finding.</p>

Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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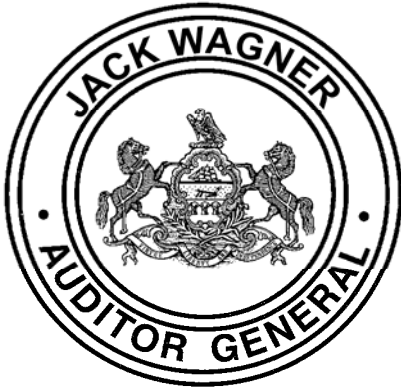
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